

REMARKS/ARGUMENTS

Claims 1-35 are pending in the Application, with claims 2-6 and 9-35 having been withdrawn. By this amendment, claim 7 is being amended to add the limitations of Claim 1 thereto. No new matter is involved.

As amended herein, claim 7 defines a method of portfolio management comprising "communicating with at least one investor through the Internet, receiving investment parameters from said at least one investor, and generating at least one portfolio according to said investment parameters, said step of generating at least one portfolio comprising generating at least one optimal scenario portfolio in accordance with said investment parameters and current market conditions". Claim 8 depends from and further defines claim 7 in terms of "comparing expected returns of said optimal scenario portfolio with expected returns of at least one existing portfolio to provide trade recommendations".

In Paragraph 4 on page 3 of the Office Action, claims 1, 7 and 8 are rejected under 35 U.S.C. § 102(e) as being clearly anticipated by U.S. 2002/0091605 of Labe, Jr. et al. According to the Office Action, Labe is said to set forth each and every one of the steps recited in claims 1, 7 and 8. This rejection is respectfully traversed, particularly in view of the amendment of claim 7 to add the limitations of claim 1 thereto.

The Labe reference deals with situations where the investor currently owns a suboptimal portfolio of stocks relative to their risk preference or tolerance. The portfolio is optimized by using a mixed-integer nonlinear programming approach. For some reasons, however, the investor may be unable to adjust their portfolios to an "optimal" position. These reasons may include but are not necessarily limited to trading commissions, taxes and other unspecified factors. As a consequence, the investor must work with a lesser number of securities to achieve an optimal

portfolio. This is one of the most important integer constraints that is mentioned in Labe. Using the mixed-integer nonlinear programming technique, Labe configures a suboptimal but near-optimal portfolio, which may not be as good as the optimal portfolio but which may still satisfy the investor's investment profiles.

At the bottom of page 3 of the Office Action, the statement is made that the prior art made of record but not relied upon is considered pertinent to Applicant's disclosure. This prior art includes U.S. Patent 6,601,044 of Wallman and U.S. Patent 6,018,722 of Ray, et al.

The development in Wallman is focused on offering low cost solutions to small investors, who are unable to maintain an optimally well diversified portfolio of individual securities due to high transaction costs. When trades have to be executed frequently and when such trades involve an odd number of shares or even fractional shares for the maximum optimality, Wallman offers a technological solution to combine and aggregate all customer orders for cost effective trades. The development described therein does not advance any particular mathematical solutions or techniques to optimal asset allocation, but provides a forum to inquire about the best allocation algorithms through other means such as other websites. However, the development described in Wallman sends out frequent rebalancing signals based on securities actual risk-return ratios relative to those that the investor may desire.

Ray, et al. introduces an automated expert system, which acts as a Registered Investment Advisor. The arrangement described therein designs portfolios for each small investor based on personal customer financial objectives, recommends rebalancing with the proper time to buy and sell securities, and generates orders. In Ray, et al., the level of risk preference or tolerance is ranked based on the investor's responses to various questionnaires. This risk preference

ranking is compared to the actual risk rankings of various individual portfolios. Discrepancies between the two will result in trade recommendations. The development offers advice based on a planning platform for small investors.

In contrast, the present invention provides the TPS System (Tara Portfolio Solutions) that implements Modern Portfolio Theory (MPT) for real world investment in a dynamic stochastic process, when security returns are non-stationary. Unlike the Wallman reference, TPS is not necessarily for small investors, and the low cost trading via the best execution is not the primary purpose of the system. However, it can be used for advisory purposes as in Ray et al., but the investor's risk tolerance requirement is not met through a risk ranking system. Rather, TPS satisfies the investor's risk preference by suggesting an optimal mix between an optimal portfolio of risky securities and cash, which is one of the major results in MPT (the Separation Theorem). Such theorem follows an argument that in equilibrium, all efficient portfolios would lie along what is known as the Capital Market Line.

Before constructing an optimal portfolio, TPS receives various input parameters from the investor, although default settings are available, about their preferred asset class factors or investment styles and various rebalancing conditions as well as their risk preference or tolerance. Consequently, unlike the Labe reference, the TPS user in accordance with the invention custom tailors asset class factors or investment styles with various screening tools, and presets various rebalancing conditions. The TPS user can set, however, many numbers of candidate stocks, although the number is generally limited to 25 in order to minimize market impacts. While the total number of stocks to be in an optimal portfolio is a major constraint in Labe, TPS has no such constraints. Securities are chosen initially as candidate securities before a final list of securities is chosen and optimalities are

configured by the mathematical algorithm in TPS. Once an optimal portfolio is constructed with the user-specified asset class factors or styles, it is then combined with cash or cash equivalents so as to satisfy the investor's risk preference or tolerance requirement. Near-optimal portfolios in Labe are suboptimal, while there is no suboptimal portfolios in the case of TPS.

The current market condition is a reflection of what is ahead. Given the current market condition, the future market portfolio return is simulated through the Monte Carlo approach. However, each security's return is sensitive to changes in the market portfolio return. Given each individual security's sensitivity and the simulated market conditions, TPS computes various forward looking estimates about a security's expected return, its volatility and its covariance with other securities returns. An optimal portfolio is based on these forward looking statistics. Obviously, for each given asset class factor or an investment style, there is at least one optimal portfolio to be generated when the current market condition changes. An optimal cash allocation consistent with the investor's risk preference or tolerance is also configured. Neither Labe nor Wallman nor Ray et al. disclose or suggest this *ex ante* process of portfolio optimization.

As noted above, a change in market conditions may warrant a new portfolio configuration, which may be more optimal than the current portfolio. With TPS, the user would have set various rebalancing requirements. For example, initially, the user may consider forming a portfolio, as long as the expected return on a scenario portfolio will be greater than the user's target return, which also exceeds the expected return on the user's existing portfolio. If the user uses the market index return as the benchmark, the expected return on a scenario portfolio must be more than the anticipated market return inclusive of trading costs. TPS also allows the user to preset stop loss as well as to redeem their investment. There is a variety

Appl. No. 09/776,379
Amdt. Dated June 19, 2006
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of specific rebalancing conditions or strategies offered with TPS, as described for example in Paragraph [0064] through [0109] of the Specification. These rebalancing conditions are different from those available in any other previous systems.

Thus, claim 7 as amended herein and claim 8 which depends from claim 7, are submitted to clearly distinguish patentably over Labe. Claim 7 defines the step of "generating at least one optimal scenario portfolio in accordance with said investment parameters and current market conditions". Claim 8 depends from and further defines claim 7 in terms of the further step of "comparing expected returns of said optimal scenario portfolio with expected returns of at least one existing portfolio to provide trade recommendations". As discussed in detail above, neither Labe, et al. nor any of the other cited references disclose or suggest such methods in accordance with the invention.

Therefore, claims 7 and 8 are submitted to clearly distinguish patentably over the prior art. Reconsideration and allowance are respectfully requested.

If for any reason the Examiner finds the application other than in condition for allowance, the Examiner is requested to call the undersigned attorney at the Los Angeles, California telephone number (213) 337-6842 to discuss the steps necessary for placing the application in condition for allowance.

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If there are any fees due in connection with the filing of this response, please charge the fees to our Deposit Account No. 50-1314.

Respectfully submitted,
HOGAN & HARTSON L.L.P.

Date: June 19, 2006

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